

Abbreviated Version
appeared in: **Wall Street Journal (April 12, 2000)**

High Noon on China and the WTO

By

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On April 12, the AFL-CIO is expected to send over 10,000 workers into the streets of Washington, chanting slogans against China's entry into the WTO. They will be joined, no doubt, by other veterans of the "battle of Seattle" last year, many ranting against the WTO but also flexing their muscle for a larger show of street strength against the IMF and the World Bank this week. Such agit-prop tactics, having so far met only with a complaisant response by the US administration (as epitomized by the unpreparedness at Seattle and the mollycoddling with weasel words of approbation of their "good intentions" instead of a spirited engagement of their false assertions and an imaginative redirection and reformulation of their ill-considered demands), have made these groups infer mistakenly that they are an increasingly unstoppable force.

Following on the failure of Clinton's fast-track request and the Seattle debacle, the loss of the China vote coming in the midst of yet more street theatre will therefore have momentous political consequences beyond the issue itself: indeed, from the viewpoint of future negotiated trade liberalization, this is really "make or break" time. Hence, finally, the somnolent pro-trade and pro-WTO groups, including businesses and economists, must wake up: this is the battle that will define the outcome of the war against trade that these self-style "progressive" but in reality reactionary groups are waging against trade, a powerful engine of worldwide economic prosperity and social improvement.

As it happens, this should be no contest. The economic case against China's entry into the WTO is weak to the point of being laughable. But, the case for our not going along with the entry if other nations admit China into the WTO, as they can (since only a 2/3rds majority vote is

necessary for entry of a new member) and will, is weaker still. And the human-rights case for barring China's entry is not compelling under either scenario.

Case for China's Entry

At the outset, China is a major player in trade and belongs in an organization that is part of the postwar superstructure of international institutions whose implicit objective is universal membership. China's continuing exclusion on its human-rights record or the incompleteness of its reforms and markets, is illogical and inequitable. Countries (such as Iraq and Syria) with comparable human-rights lapses belong to the WTO; and China's splendid economic performance reflects a steady shift to functioning markets.

China's exclusion also means that, while we continue to trade with it, we will also lose the substantial gains which Ambassador Charlene Barshefsky has managed to negotiate by way of several new concessions by China as "sweeteners" for our favorable vote on the WTO entry. It is ironic that, as with NAFTA where we got far more than we gave to Mexico, China is giving much and getting little directly by way of our own trade concessions: and yet the China vote is often opposed as their gain and our loss.

But, equally important, we must remember that our trade gains without WTO membership for China will remain circumscribed by the lack of the disciplines and the rule of law that WTO membership imposes. Bilateral treaties (including our November 1999 agreement with China) are invariably narrower in scope. Besides, as our experience with China on intellectual property protection underlines, it is pretty hard to enforce effectively a bilateral agreement without creating nationalist resentments and evasions. By contrast, the WTO imposes wide-ranging disciplines which are accompanied by a Dispute Settlement mechanism that greatly

enhances enforceability because of its multilateral nature (that prevents bilateral eyeball-to-eyeball confrontations as in the horrendous US-Japan auto dispute where we lost anyway), its impartiality, and its built-in retribution for non-compliance.

The skeptics fear that, instead of being disciplined by the WTO, China will wreck the WTO and its disciplines. This is a gratuitous nightmare. Large as it is, China is nowhere near large enough to have any clout by itself; nor should we assume that many countries, even the poor ones, will ally themselves with China to undermine the working of the WTO. Nor can we assume that China will have an incentive to play havoc with an institution whose membership it seeks and whose rules it must buy into for membership. Far more likely, the WTO will be the bull in China's shop, aiding the proponents of globalization and the rule of law that fight the ideologues from the past.

But we must not forget that the benefits to us will flow also from the fact that we ourselves will be subject to the WTO disciplines in our trade with China! Thus, we cannot freely resort to anti-dumping actions, to voluntary export restraints, if China is a WTO member: we are therefore protected against our own protectionists by China's WTO entry. Just remember how we surrendered to steel protectionism by forcing Russia (a WTO non-member) into export restraint only last year.

Going Alone Against China's Entry

But the huge folly of keeping China out of the WTO is minuscule compared to our opposing her entry when others are ready to vote her in. The AFL-CIO, among others, thinks that we can do this without any cost to ourselves in terms of discriminatory treatment of us by China

relative to the other WTO members: but this is surely wrong and would be a dreadfully expensive outcome.

The scenario where we oppose China's entry, invoking for this purpose Article 35 of GATT and Article 13 of the WTO "Charter" when China is admitted by others' votes, implies that we are not constrained to offer China any of the WTO-membership rights and thus can continue the denial of Permanent MFN status: as, in fact, several European nations did to Japan when it first became a GATT member under our generous postwar leadership. But it carries the downside that it simultaneously implies that China can in turn deny us our WTO rights, thus imperiling for sure our own MFN status in China, for instance, and thus putting our market access to China under a serious threat of discrimination vis-à-vis our European, Japanese and other competitors. The AFL-CIO's advisers believe that the 1999 agreement can still gain us non-discrimination, but that is surely foolish advice.

Human Rights: "Open-Mouth" Policy is Better

The only argument against China's entry that has at least superficial plausibility is that we can use denial of entry to keep the pressure on China to improve its human-rights performance. If only this were true! But, frankly, this 800 lb. Gorilla is about as difficult to move in these matters as the 1 oz. Gnat Cuba is! We have tried repeatedly with our annual MFN-renewal debates in Congress to influence China's behavior; but to no avail.

Besides, since we cannot possibly get any country of any trade or human-rights importance to go along with us on using denial of trade access to China in our moral cause, the

net effect of using a trade-sanctions instrument to get at China is simply to divide our human-rights community from our business community (which sees only a loss of markets to others as a consequence of an unshared policy).

It is surely better then to shift from trade sanctions and instead use alternative instruments which might be more effective since our own lobbies at least can unite behind them. Here, I would opt for what I have called an “open-mouth” policy : a free and full-throated criticism at all possible fora, such as the Human Rights Commission in Geneva, to crowd the rulers of China . They are no Hitler and Stalin: and their loud distaste for such criticism shows that they are vulnerable.

As China integrates into the world economy, and her prosperity grows, there will certainly be an eventual, beneficial effect on the Chinese rulers’ policies on political and civil rights. Meanwhile, our open-mouth policy will keep some pressure on them, reinforcing what economics can contribute.